



Department of Commerce

Innovation is in our nature.

Glossary of Foreclosure Mediation Program Mediation Terminology

Adjustable-Rate Mortgage (ARM)

Mortgage repaid at the rate of interest that increases or decreases over the life of the loan based on market conditions. The interest charged is recalculated on predetermined dates by adding the current value of a specified financial index to a fixed amount, or margin.

Appraisal

A document from a professional that gives an estimate of a property's fair market value based on the sales of comparable homes in the area and the features of a property; an appraisal is generally required by a lender before loan approval to ensure that the mortgage loan amount is not more than the value of the property.

Closing Costs

Fees for final property transfer not included in the price of the property. Typical closing costs include charges for the mortgage loan such as origination fees, discount points, appraisal fee, survey, title insurance, legal fees, real estate professional fees, prepayment of taxes and insurance, and real estate transfer taxes. A common estimate of a Buyer's closing costs is 2 to 4 percent of the purchase price of the home. A common estimate for Seller's closing costs is 3 to 9 percent.

Deed

A document that legally transfers ownership of property from one person to another. The deed is recorded on public record with the property description and the owner's signature. Also known as the title.

Deed-in-Lieu

The transfer of title from a borrower to the lender to satisfy the mortgage debt and avoid foreclosure; also called a "voluntary conveyance."

Default

The inability to make timely monthly mortgage payments or otherwise comply with mortgage terms. A loan is considered in default when payment has not been paid after 60 to 90 days. Once in default the lender can exercise legal rights defined in the contract to begin foreclosure proceedings.

Depreciation

Decline in the value of a property or other asset.

Equity

Value that an owner has in real estate over and above liens against it. Equity is measured as the difference between the property's fair market value and current level of indebtedness.

Escrow

The holding of funds and/or documents in trust by a third party, typically an attorney or title company, on behalf of another party or parties.

Fixed-Rate Mortgage

A mortgage in which the interest rate and payments remain the same for the life of the loan.

Forbearance

The process of postponing mortgage payments with your lender for a predetermined period of time. During the Forbearance the loan continues to accrue interest. This solution is perfect for a homeowner who suffered a financial hardship, but can demonstrate a solution and plan for maintaining home ownership. To become eligible for Forbearance, the value of your property, current financial situation, and hardship are all considered by the lender.

Foreclosure

When used in the mortgage business, a legal proceeding initiated by a lender to take possession of the collateral property to secure a defaulted mortgage.

Lender

Any person or institution that provides money to a borrower.

Lien

A legal claim against property that must be satisfied when the property is sold. A claim of money against a property, wherein the value of the property is used as security in repayment of a debt. A lien is a defect on the title and needs to be settled before transfer of ownership. A lien release is a written report of the settlement of a lien and is recorded in the public record as evidence of payment.

Loan Modification

Restructuring of a mortgage for a borrower who faces a long-term financial problem but can demonstrate the ability to meet the modified payment terms. The modification can include lowering the original interest rate or extending the loan term in which the borrower has to repay the entire amount of the loan.

Market Value

Price at which an asset will sell in a fair market; also, the current value of a security.

Modification

A changing of the original Note terms that may allow for adding delinquent interest into the loan, resetting the payment due date, or extending the maturity date so the loan becomes current. A fee may be required and certain conditions of title may not allow this option. Investor approval is also required. Certain financial information will be required and must be verifiable.

Mortgage

A lien on the property that secures the Promise to repay a loan. A security agreement between the lender and the buyer in which the property is collateral for the loan. The mortgage gives the lender the right to collection payment on the loan and to foreclose if the loan obligations are not met.

Note

A legal document obligating a borrower to repay a mortgage loan at a stated interest rate over a specified period of time.

Notice of Default (NOD)

A notice sent to the borrower stating that he/she has not made a payment based on a predetermined deadline. The notice usually itemizes the amount of money owed, including all attorney fees if not made current. If the lender chooses they can begin to foreclose on the property if not made current.

Power of Attorney

A legal document authorizing one person to act on behalf of another.

Principal

The original balance of money loaned, excluding interest. Also, the remaining balance of a loan, excluding interest.

Quitclaim Deed

A deed transferring ownership of a property, but does not make any guarantee of clear title.

Reconveyance

An instrument used to transfer title from a trustee to the equitable owner of real estate, used when the performance of debt is satisfied under the term of a Deed of Trust.

Servicer

Company that manages the mortgage-payment process, which the routine collection of monthly payments from borrowers, transferring principal and to investors, overseeing escrow accounts and handling delinquency foreclosure problems that may arise. Lending forms that originate mortgages occasionally run in-house servicing operations but frequently contract with outside firms.

Short-Sale

The process in which a servicer works with a delinquent borrower to sell the house by a real estate agent prior to foreclosure sale.

Title

The evidence of the right to or ownership in property. In the case of real estate, the documentary evidence of ownership is the title deed. Title may be acquired through purchase, inheritance, gift, or through foreclosure of a mortgage.